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ABSTRACT

Recent trends in college costs and reasons why college costs have been increasing are considered. Comparative data are presented on recent rates of growth among average college charges, faculty salaries, the Higher Education Price Index (HEPI), and the Consumer Price Index (CPI). It is shown that from 1977 through 1982, average total tuition, fees, room, board, and other personal college expenses did not rise as steeply as the annual CPI. The rate of increase in college charges at public institutions stayed below the CPI level, and the rate at independent institutions generally followed the CPI. The HEPI appears to have lagged behind the CPI increase from fall 1977 through fall 1982. Projections regarding the CPI, college costs, and inflation are also included. Four conditions under which college charges are likely to rise more slowly than expected are identified, along with five conditions under which college costs could be driven higher than expected. It is suggested that the rate of change in charges will be determined largely by national and state economic conditions, public policy decisions, and consumer reactions. (SW)

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Policy Brief

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COLLEGE COSTS: Recent Trends, Likely Future

Cathy Henderson

Consumers feel the effects of inflation when they buy groceries, pay fuel bills, or take vacations. But what about college charges: How have they been affected in relation to the overall inflation rate?[1] College charges rose steeply during the recent several years when inflation was double-digit. Now that inflation is expected to remain low for the near future, can college charges be expected to rise more slowly?

Trends in college consumer charges are here explored by first answering several questions: Who keeps track of typical college charges? What items are included in a typical college student's budget? How much have average consumer charges risen during the past few years? What can be expected for fall 1983 and fall 1984? What economic and institutional factors will be primarily responsible for determining the rate of change in college charges?

Consumer Cost Information

Two sources of information annually publish estimates of average undergraduate college charges. First, the National Center for Education Statistics (NCES) collects data each year on tuition and fee rates as well as room and board charges for resident students. Data are supplied by all higher education institutions, and average figures are derived by weighting the student charge data by enrollment size. NCES then further derives the *average charges* for *students* at public and independent two- and four-year institutions.

The second primary source of information is the College Scholarship Service (CSS) of the College Board. In addition to obtaining data on tuition, fees, room and board, the CSS annually collects information on expected expenses for books, transportation, and personal items. In contrast to the NCES survey, CSS simply averages the institutional cost data and does not weight the data by enrollment size. Type and control averages for *groups of institutions* are, therefore, provided by CSS. CSS averages are based on institutional reports from two consecutive years; for example, although approximately 3,200 institutions responded to the CSS 1982-83 survey, published figures were based on only the 1,600-1,700 institutions that had also supplied 1981-82 data. Overall, the NCES series is more useful as an indicator of what *average consumer charges* are, and the CSS series more clearly reflects the *charges individual institutions* are making.

Typical College Charges for Consumers

Many people, in thinking about the costs of attending college, consider only tuition and fee charges. However, for most full-time students, living expenses such as room, board, transportation, and personal expenses must be added to the expected payments for tuition, fees, and books. Average student budgets for full- or part-time commuter students more often are limited to tuition, fees, books, and partial transportation costs, on the assumption that their place of residence remains unchanged. Based on data from NCES and CSS, comprehensive budgets for full-time undergraduate students enrolled for the 1983-84 academic year are projected by the American Council on Education (ACE) to be $4,618 at public institutions and $8,939 at independent institutions (see Table 1 for detailed projections).

Recent Trends

Table 2 compares recent rates of growth among average college charges, faculty salaries, the Higher Education Price Index (HEPI), and the Consumer Price Index (CPI). From 1977 through 1982, average total tuition, fees, room, board, and other personal college expenses did not rise as steeply as the annual CPI: the CPI rose 59.4 percent, and average charges at all institutions climbed 50.8 percent. There were, however, differences between the public and private sectors. The rate of increase in college charges at public institutions, at 46.7 percent, stayed below the CPI level, and the rate at independent institutions, at 58.0 percent, generally followed the CPI.[2] During the 1977-82 period, faculty salaries rose at a slower pace than the general inflation rate: while the CPI climbed 59.4 percent, faculty salaries grew by only 44.9 percent.

The Higher Education Price Index is a useful measure of the changes in the prices of a fixed "market basket" of goods and services used by higher education institutions. Included in the HEPI components are professional and nonprofessional wages and salaries, fringe benefits, contracted services, supplies and materials, institutional equipment, books and periodicals, and utilities. Although comparable figures are available from the HEPI only through 1981-82, the HEPI appears to have lagged behind the CPI increase from fall 1977 through fall 1982, as shown in Table 2 figures for 1977-78 through 1981-82. By fall 1981 the CPI had risen 50.2 percent and the HEPI had registered a 44.2 percent increase.

What are the probable reasons behind these different rates of increase during the past several years? The rapid rate of growth in the CPI during this period forced many institutional administrators to defer expensive facility renovations and maintenance projects in order to keep their operational costs as low as possible. At the same time, fuel costs were skyrocketing: the utility component of the HEPI doubled (101.5 percent) during this period. In contrast, the total HEPI personnel compensation component (including salaries, wages, and fringe benefits) rose only 40.3 percent. Clearly institutions did not pass along real cost-of-living increases to their faculty and staff for reasons of the other operating budget pressures caused by high inflation rates.

Although the impact of unemployment and economic recession has varied from state to state over the past few years, by 1982 state revenues had been substantially reduced in most areas, thereby forcing increases in public tuition and fee rates. Tuition and fee increases for fall 1982 were estimated at 12 percent at public institutions and 13 percent at independent institutions. In recent years, increases in tuition and fees at independent institutions have risen slightly above the public sector rate. Tuition is the primary revenue source for independent institutions and the only one under the direct control of the institutions when annual giving, endowment income, and government funding do not increase enough to offset inflation. By fall 1982 many independent institutions had also begun to rehabilitate some of their physical plant, expenditures that had typically been postponed during the era of soaring utility bills.

Likely Future

The Congressional Budget Office (CBO) projects that the CPI rise will range between 4 and 5 percent in 1983 and 1984.[3] Data collected by John Minter Associates and the Economic Forecasting Project at Georgia State University indicate that the average annual increase in tuition and fees for fall 1983 may range between 8 percent and 10 percent across institutions. In light of the recent economic pressures that have forced mid-year tuition increases at several public institutions (including the University of Illinois and 29 institutions in the California state college and university system), ACE is projecting that in fall 1983 the public tuition and fee increase will be 9 percent and the independent sector increase is likely to be 10 percent. Both these rates of increase are well below the fall 1982 ACE estimates of 12 percent for the public sector and 13 percent for the independent sector.

For fall 1984, John Minter Associates project that tuition and fees will increase 7 percent in public institutions and 8 percent at independent institutions. Because the CBO estimates that unemployment will remain above 9 percent through 1984[4] and result in continuing pressures on state revenues, ACE projects tuition and fees will increase 8 percent in both sectors. On balance, analysts see average college charges outpacing inflation rates through 1984 in order to make up for ground lost during the late 1970s and early 1980s. As already noted, high inflation rates during this period forced institutions to pay a larger share of their budgets for utility costs, defer expensive facility maintenance and renovation, and depress faculty and staff compensation below real cost-of-living annual increases.

Factors Shaping Consumer Charges Trends

A number of factors will shape the annual increase in average student budgets during the next several years. Charges are likely to rise *more slowly* than expected under any of the following conditions:

a) Utility costs remain constant, thereby permitting a larger share of any increase in revenue to be used to restore personnel compensation or to renovate institutional facilities, or both;

b) Capital fund drives, boosted by alumni and corporate giving, are successful in meeting their goals to provide larger endowment cushions to help offset unexpected drains on institutional operating buget revenues;

c) Enrollment levels stabilize or possibly grow (as measured in terms of full-time equivalent enrollment) and thereby augment general operating revenues; and

d) State appropriations for higher education increase at rates equal to or greater than the inflation rate.

In contrast, average college costs to consumers could be driven *higher* than expected if any of the following occur:

a) Sustained high inflation rates resume;

b) Enrollment levels dip, creating underutilized capacity and thus drive up per unit costs to fewer consumers;[5]

c) High unemployment rates remain for several years, further depressing state revenues for higher education support (primarily affecting the public sector but also those independent institutions where in-state students use state scholarship funds);
d) State legislators decide to make students in public institutions pay a higher percentage of actual educational costs; and
e) Federal need-based student aid is cut, a situation that would pressure more institutions to supplement federal aid with institutionally funded student assistance programs.

There is no doubt that average undergraduate consumer charges will continue to rise. The rate of change in these charges will be determined largely by national and state economic conditions, public policy decisions, and consumer reactions.

Notes

1. Analysis is for undergraduate-level charges only. Data for universities are included as part of the calculations for four-year institutions.
2. These figures are ACE estimates based on analyses of NCES and CSS data over the past several years. Actual figures weighted by fall 1982 enrollment will be forthcoming from NCES in the summer of 1983. Analysis in this paper for independent institutions does exclude proprietary institutions.
3. Congressional Budget Office, *Baseline Budget Projections for Fiscal Years 1984-1988, A Report to the Senate and House Committees on the Budget, Part II* (Washington: Government Printing Office, 1983), p. 6.
4. Ibid.
5. See also Nathan Dickmeyer, *Financial Conditions of Colleges and Universities* (Washington: American Council on Education and National Association of College and University Business Officers, 1983), and David W. Breneman, "Higher Education and the Economy," *Educational Record*, 62 (1981):18-21.

TABLE 1. Trends in Average Undergraduate Consumer Charges, 1977-78—1984-85

	Total Costs[1]			Tuition and Fees			Room, Board and Other Expenses		
Year	Total	Public	Independent[2]	Total	Public	Independent[2]	Total	Public	Independent[2]
1977-78	$3,479	$2,932	$5,210	$1,016	$515	$2,604	$2,463	$2,417	$2,606
1978-79	3,669	3,061	5,585	1,099	548	2,843	2,570	2,513	2,742
1979-80	3,935	3,285	5,988	1,186	586	3,089	2,749	2,699	2,899
1980-81	4,340	3,603	6,665	1,315	636	3,466	3,025	2,967	3,199
1981-82	4,823	3,987	7,471	1,486	713	3,935	3,337	3,274	3,536
				ACE Projections[3]					
1982-83	5,245	4,301	8,230	1,674	799	4,447	3,571	3,502	3,783
1983-84	5,656	4,618	8,939	1,835	870	4,891	3,821	3,748	4,048
1984-85	6,032	4,918	9,574	1,982	940	5,283	4,050	3,978	4,291

1. Total costs combine: (1) tuition, fee, room, and board charges from the National Center for Education Statistics, HEGIS surveys; and (2) expenses for transportation, books, supplies, and personal items from the College Scholarship Service survey series.
2. Excludes proprietary institutions.
3. ACE projections, using the following inflators:

	Tuition and Fees		Room, Board, and
Year	Public	Independent	Other Expenses
1982-83	12%	13%	7%
1983-84	9%	10%	7%
1984-85	8%	8%	6%

These inflators were developed after reviewing data from the National Center for Education Statistics, the College Scholarship Service, John Minter Associates, the Congressional Budget Office, and the Economic Forecasting Project at Georgia State University, 1983. Inflators for tuition, fees, room, board, and/or other expenses from the above sources ranged between 7 percent and 12 percent.

Sources: Division of Policy Analysis and Research, American Council on Education, based on data from the National Center for Education Statistics and the College Scholarship Service of the College Board, *The College Cost Book*, selected years.

TABLE 2. Recent Rates of Growth in Undergraduate College Charges and Related Indices
(1977-78 as Base Year)

Year	Total Costs[1]			Tuition and Fees			Room, Board, and Other Expenses			Faculty Salaries	HEPI[3]	CPI[4]
	Total	Public	Independent[2]	Total	Public	Independent[2]	Total	Public	Independent[2]			
1977-78	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1978-79	105.5	104.4	107.2	108.2	106.4	109.2	104.3	104.0	105.2	106.0	107.8	109.3
1979-80	113.1	112.0	114.9	116.7	113.8	118.6	111.6	111.7	111.2	113.8	118.4	123.9
1980-81	124.7	122.9	127.9	129.4	123.5	133.1	122.8	122.8	122.8	124.0	131.1	138.2
1981-82	138.6	136.0	143.4	146.3	138.4	151.1	135.5	135.5	135.7	134.7	144.2	150.2
Projections[5]												
1982-83	150.8	146.7	158.0	164.8	155.1	170.8	145.0	144.9	145.2	144.9	N.A.	159.4
1983-84	162.6	157.5	171.6	180.6	168.9	187.8	155.1	155.1	155.3	N.A.	N.A.	166.6
1984-85	173.4	167.7	183.8	195.1	182.5	202.9	164.4	164.1	164.7	N.A.	N.A.	174.9

1. See footnote 1 in Table 1.
2. Excludes proprietary institutions.
3. Higher Education Price Index, adjusted for fiscal years.
4. Consumer Price Index, adjusted for fiscal years.
5. See footnote 3 in Table 1.

Sources: Division of Policy Analysis and Research, American Council on Education, based on data from the National Center for Education Statistics; the College Scholarship Service of the College Board, *The College Cost Book*, selected years; John Minter Associates and the American Association of University Professors data supplied to *The Chronicle of Higher Education*, January 1983; Research Associates of Washington, "Higher Education Prices and Price Indexes: 1982 Update," October 1982; the Bureau of Labor Statistics, annual releases; and Congressional Budget Office, *Outlook for Economic Recovery*, February 1983.

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